Malibu Boats, Inc.
Form 10-Q
March 11, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013
Commission file number: 001-36290

MALIBU BOATS, INC.
(Exact Name of Registrant as specified in its charter)

Delaware	5075 Kimberly Way Loudon, Tennessee 37774	46-4024640
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code) (865) 458-5478 (Registrant’s telephone number, including area code)	(I.R.S. Employer Identification No.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No þ
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Class A Common Stock, par value $0.01, outstanding as of March 7, 2014:	11,054,830	shares
Class B Common Stock, par value $0.01, outstanding as of March 7, 2014:	34	shares

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Part I - Financial Information

Item 1. Financial Statements
MALIBU BOATS, INC.
Condensed Balance Sheet
December 31, 2013

Assets	
Cash	$10
Total assets	$10
Liabilities and Stockholder’s Equity	
Class A Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 100 shares issued and outstanding	1
Class B Common Stock, par value $0.01 per share, 25,000,000 shares authorized, no shares issued and outstanding	—
Preferred stock, par value $0.01 per share, 25,000,000 shares authorized, no shares issued and outstanding	$—
Additional paid-in-capital	9
Total liabilities and stockholder’s equity	$10

The accompanying notes are an integral part of the Condensed Balance Sheet (Unaudited).

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MALIBU BOATS, INC.
Notes to Condensed Balance Sheet

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies
Overview
Malibu Boats, Inc. (the “Company” or "Malibu") was formed as a Delaware corporation on November 1, 2013, as a holding company for the purposes of facilitating an initial public offering (the "IPO") of shares of common stock. As of December 31, 2013, the Company had not engaged in any business or other activities except in connection with its formation and registration with the Securities and Exchange Commission (“SEC”). Following the internal reorganization of Malibu Boats Holdings, LLC (the "LLC") and the initial public offering of the Company’s common stock on February 5, 2014, the Company became the sole managing member of and has a controlling interest in the LLC. Malibu's only business following the IPO is to act as the sole managing member of Malibu Boats Holdings, LLC and, as such, the Company operates and controls all of the LLC's business and affairs and consolidates its financial results into Malibu's consolidated financial statements for the periods ending on or after the closing of the IPO on February 5, 2014. Malibu Boats Holdings, LLC was formed in 2006 with the acquisition by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. Malibu Boats Holdings, LLC is engaged in the design, engineering, manufacturing and marketing of innovative, high-quality, performance sports boats that are sold through a world-wide network of independent dealers.
Basis of Presentation
The accompanying condensed balance sheet has been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Separate statements of operations, changes in stockholder’s equity and cash flows have not been presented in the financial statements because there have been no activities of this entity.

2. Stockholder’s Equity
The Company is authorized to issue 150,000,000 shares of capital stock, consisting of 100,000,000 shares of Class A Common Stock, par value $0.01 per share (“Class A Common Stock”), 25,000,000 shares of Class B Common Stock, par value $0.01 per share ("Class B Common Stock"), and 25,000,000 shares of Preferred Stock, par value $0.01 per share. The Company has issued 100 shares of Class A Common Stock in exchange for $10.00, all of which were held by BC-Malibu Boats GP, an affiliate of Black Canyon Capital LLC, at December 31, 2013.

3. Related Party Transactions
In connection with the filing of its registration statement on Form S-1 with the SEC on December 13, 2013, the Company paid a registration fee of $14,812, which was reimbursed by the LLC.

4. Subsequent Events

Initial Public Offering

On February 5, 2014, Malibu completed its IPO of 8,214,285 shares of Class A Common Stock at a price to the public of $14.00 per share, raising net proceeds of $99.5 million to the Company after underwriting discounts and commissions but before expenses. Of the shares of Class A Common Stock sold to the public, 7,642,996 shares were issued and sold by the Company and 571,289 shares were sold by selling stockholders. This included 899,252 shares issued and sold by the Company and 172,175 shares sold by selling stockholders pursuant to the over-allotment option granted to the underwriters, which was exercised prior to the completion of the IPO.

The Company used $69.8 million of the net proceeds from the IPO to purchase units of the LLC ("LLC Units") from the LLC and caused the LLC to use these proceeds (i) to pay down all of the amounts owed under the LLC’s credit facilities and term loans in an amount equal to $63.4 million, (ii) to pay Malibu Boats Investor, LLC, an affiliate of the LLC, a fee of $3.75 million upon the consummation of the IPO in connection with the termination of the LLC’s management agreement, and (iii) approximately $2.7 million for other general corporate purposes. The Company used all of the remaining net proceeds from the IPO, or $29.8 million, to purchase LLC Units from the existing owners of the LLC at a purchase price equal to the initial public offering price per share of Class A Common Stock in the IPO, after deducting underwriting discounts and commissions.

Recapitalization and IPO Transactions

Immediately prior to the closing of the IPO, LLC Units were allocated among the existing owners of the LLC pursuant to the distribution provisions of the former limited liability company agreement of the LLC based upon the liquidation value of the LLC, assuming the LLC was liquidated with a value implied by the IPO price of the shares of Class A Common Stock (the “Recapitalization”). Further, in connection with the Recapitalization, the Company issued to each existing owner of the LLC, for nominal consideration, one share of Class B Common Stock of the Company, each of which provides its owner with no economic rights but entitles the holder to one vote on matters presented to the Company’s stockholders for each LLC Unit held by such existing owner.

Further, on February 4, 2014, two holders of membership interests in the LLC merged with and into two newly-formed subsidiaries of the Company. As a result of these mergers, the sole stockholders of each of the two merging entities received shares of Class A Common Stock in exchange for shares of capital stock of the merging entities and the 100 shares of Class A Common Stock initially issued to BC-Malibu Boats GP, which were redeemed for nominal consideration. The two former sole stockholders of the merging entities were the selling stockholders in the IPO.

First Amended and Restated Limited Liability Company Agreement

In connection with the Recapitalization and the IPO, the Company became the sole managing member of the LLC and, through the LLC, operates the business of the LLC. Accordingly, although the Company acquired a 49.3% economic interest in the LLC immediately following the closing of the IPO, the Company has 100% of the voting power and controls the management of the LLC. Holders of LLC Units generally do not have voting rights under the first amended and restated limited liability company agreement of the LLC, as amended (the “LLC Agreement”).

Pursuant to the LLC Agreement, the Company has the right to determine when distributions will be made to holders of LLC Units and the amount of any such distributions. If the Company authorizes a distribution, such distribution will be made to the members of the LLC (including the Company) pro rata in accordance with the percentages of their respective LLC Units.

Voting Agreement

In connection with the Recapitalization, the Company entered into a voting agreement (the “Voting Agreement”) with certain affiliates. Under the Voting Agreement, Black Canyon Management LLC is entitled to nominate to the Company’s board of directors a number of designees equal to (i) 20% of the total number of directors comprising the Company’s board of directors for so long as Black Canyon Management LLC and its affiliates and Jack Springer, Wayne Wilson and Ritchie Anderson, together, beneficially own 15% or more of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class, and (ii) 10% of the total number of directors comprising the Company’s board of directors for so long as Black Canyon Management LLC and its affiliates and Messrs. Springer, Wilson and Anderson, together, beneficially own more than 5% but less than 15% of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class. For purposes of calculating the number of directors that Black Canyon Management LLC is entitled to nominate pursuant to this formula, any fractional amounts would be rounded up to the nearest whole number and the calculation would be made on a pro forma basis, taking into account any increase in the size of the board of directors (e.g., one and one-third (1) directors equates to two directors). In addition, Black Canyon Management LLC has the right to remove and replace its director-designees at any time and for any reason and to nominate any individual(s) to fill any such vacancies. Messrs. Springer, Wilson and Anderson are required to vote any of their LLC Units in favor of the director or directors nominated by Black Canyon Management LLC.

Exchange Agreement

In connection with the Recapitalization, the Company entered into an exchange agreement (the “Exchange Agreement”) with the existing owners of the LLC, several of whom are directors and/or officers of the Company. Under the Exchange Agreement, each existing owner of the LLC (and certain permitted transferees thereof) may generally exchange its LLC Units for shares of Class A Common Stock of the Company on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications, or for cash (except in the event of a change in control), at the Company’s election. Notwithstanding the foregoing, within the 180-day period following the closing of the IPO, a holder of LLC Units may only exchange those LLC Units for Class A Common Stock if such holder executed a lock-up agreement. Further, an existing owner of the LLC does not have the right to exchange LLC Units if the Company determines that such exchange would be prohibited by law or regulation or would violate other agreements with the Company to which the existing owner may be subject.

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Registration Rights Agreement

In connection with the Recapitalization, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with Black Canyon Management LLC and certain affiliates of Black Canyon Capital LLC pursuant to which Black Canyon Management LLC may request registration or inclusion of shares of Class A Common Stock held by affiliates of Black Canyon Capital LLC in any registration of Class A Common Stock in compliance with the Securities Act of 1933, as amended. In addition, the Registration Rights Agreement provides that, as soon as practicable following the one-year anniversary of the closing of the IPO, the Company is required to use all reasonable efforts to cause a resale shelf registration statement to become effective and remain effective until the eighth anniversary of the closing of the IPO. The Registration Rights Agreement will remain in effect until (i) there are no more securities registrable under the Registration Rights Agreement outstanding or (ii) termination of the Registration Rights Agreement by both (a) Black Canyon Management LLC and (b) affiliates of Black Canyon Capital LLC owning two-thirds of the outstanding LLC Units. In addition, the LLC Agreement permits members that own securities that the Company proposes or is required to register with the SEC, pursuant to the Registration Rights Agreement or otherwise, the right to include their securities in such registration, subject to the limitations set forth in the LLC Agreement.

Tax Receivable Agreement

In connection with the Recapitalization, the Company entered into a tax receivable agreement (the "Tax Receivable Agreement") with the existing owners of the LLC that provides for the payment from time to time by the Company to the existing owners of 85% of the amount of the benefits, if any, that the Company has deemed to realize as a result of (i) increases in tax basis resulting from the purchase or exchange of LLC Units and (ii) certain other tax benefits related to the Company entering into the Tax Receivable Agreement. These payment obligations are obligations of the Company and not of the LLC. For purposes of the Tax Receivable Agreement, the benefit deemed realized by the Company will be computed by comparing the actual income tax liability of the Company (calculated with certain assumptions) to the amount of such taxes that the Company would have been required to pay had there been no increase to the tax basis of the assets of the LLC as a result of the purchases or exchanges, and had the Company not entered into the Tax Receivable Agreement.

The Tax Receivable Agreement further provides that, upon certain mergers, asset sales or other forms of business combinations or other changes of control, the Company (or its successor) would owe to the existing owners of the LLC a lump-sum payment equal to the present value of all forecasted future payments that would have otherwise been made under the Tax Receivable Agreement that would be based on certain assumptions, including a deemed exchange of LLC Units and that the Company would have sufficient taxable income to fully utilize the deductions arising from the increased tax basis and other tax benefits related to entering into the Tax Receivable Agreement. The Company also is entitled to terminate the Tax Receivable Agreement, which, if terminated, would obligate the Company to make early termination payments to the existing owners of the LLC. In addition, an existing owner may elect to unilaterally terminate the Tax Receivable Agreement with respect to such existing owner, which would obligate the Company to pay to such existing owner certain payments for tax benefits received through the taxable year of the election.

Effects of the Recapitalization and IPO

As a result of the Recapitalization and the IPO:

- Investors in the IPO collectively own 8,214,285 shares of Class A Common Stock;

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The two selling stockholders in the IPO, who were former holders of LLC Units, continue to collectively own 2,840,545 shares of Class A Common Stock;

- The Company owns 11,054,830 LLC Units, representing 49.3% of the economic interest in the LLC;
- Existing owners of the LLC collectively own 11,373,737 LLC Units, representing 50.7% of the economic interest in the LLC;
- Investors in the IPO collectively have 36.6% of the voting power in the Company;
- The two selling stockholders in the IPO who were former holders of LLC Units, continue to collectively have 12.7% of the voting power in the Company; and

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- Existing owners of the LLC, through their holdings of the Company's Class B Common Stock, collectively have 50.7% of the voting power in the Company.

Unaudited Pro Forma Condensed Consolidated Financial Statements

The pro forma adjustments related to the pro forma condensed income statement represent adjustments that reflect events that are (i) directly attributable to a specific transaction, (ii) expected to have a continuing impact, and (iii) factually supportable.

The unaudited pro forma condensed consolidated balance sheet as of December 31, 2013 and the unaudited pro forma condensed consolidated statements of income for the three and six months ended December 31, 2013 present the results of the LLC and give pro forma effect to results of the Company and the Recapitalization and the IPO and the use of net proceeds from the IPO as if such transactions occurred on July 1, 2013 for the condensed consolidated statement of income and as of December 31, 2013 for the consolidated balance sheet.

The pro forma adjustments principally give effect to:

- the termination of the management agreement between the LLC and Malibu Boats Investor, LLC, an affiliate, including the payment of a non-recurring fee of $3.75 million to Malibu Boats Investor, LLC upon the consummation of the IPO;

- the Recapitalization and the IPO;

- the purchase by the Company of LLC Units with the proceeds of the IPO;

- in the case of the unaudited pro forma consolidated statements of income, a provision for corporate income taxes on the income attributable to the Company at an effective rate of 39.1% and 37.3% for the three and six months ended December 31, 2013, respectively, which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state and local tax jurisdiction;

- adjustments that give effect to the Tax Receivable Agreement as described above;

- payments due to the existing owners of the LLC as set forth in the Tax Receivable Agreement equal to 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income and franchise tax that the Company actually realizes (or is deemed to realize in the case of certain payments required to be made upon certain occurrences under the Tax Receivable Agreement) as a result of the increases in the tax basis of the LLC's assets attributable to the Company's purchase of LLC Units from the existing owners of the LLC and of certain other tax benefits related to the Company entering into the Tax Receivable Agreement; and

- adjustments to reflect the impact on deferred tax assets related to the difference in the historical tax basis in the LLC as compared to its GAAP carrying value.

The pro forma adjustments do not give effect to one time stock compensation costs of $1.8 million we expect to incur in connection with the Recapitalization and IPO transactions as a result of the modification of certain profit interest awards previously granted in 2012 under the LLC Agreement, as amended and restated, as these costs do not have a continuing impact.

The unaudited pro forma consolidated financial information reflects the manner in which the Company accounted for the Recapitalization and IPO. Specifically, the Company accounted for the Recapitalization as a non-substantive transaction in a manner similar to a transaction between entities under common control pursuant to Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Accordingly, after the Recapitalization, the assets and liabilities of the Company are reflected at their carryover basis. The unaudited pro forma consolidated financial information is included for informational purposes only and does not purport to reflect the Company's results of operations or financial position that would have occurred had it operated as a public company during the periods presented. The unaudited pro forma condensed consolidated financial information should not be relied upon as being indicative of the Company's financial condition or results of operations had the Recapitalization and IPO and the contemplated use of the estimated net proceeds from the IPO occurred on the dates assumed. The unaudited pro forma condensed consolidated financial information also does not project the Company's results of operations or financial position for any future period or date.

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MALIBU BOATS, INC.
Pro Forma Condensed Consolidated Statement of Income (Unaudited)
Three Months Ended December 31, 2013

	Malibu Boats Holdings, LLC Historical (1)	Pro Forma Adjustments	Malibu Boats, Inc. (2) Pro Forma
	(In thousands, except per unit and per share data)		
Net sales	$43,938	$—	$43,938
Cost of sales	32,242	—	32,242
Gross profit	11,696	—	11,696
Operating expenses:			
Selling and marketing	1,510	—	1,510
General and administrative	3,068	(21) (3)	3,047
Amortization	1,295	—	1,295
Operating income	5,823	21	5,844
Other income (expense):			
Other	6	—	6
Interest expense	(609)	609 (4)	—
Other expense	(603)	609	6
Net income before provision for income taxes	5,220	630	5,850
Provision for income taxes	—	1,126 (5)	1,126
Net income	5,220	(496)	4,724
Non-controlling interest	—	2,967 (6)	2,967
Net income attributable to members and stockholders	$5,220	$(3,463)	$1,757
Basic and diluted earnings per unit:			
Class A Units	$0.12		
Class B Units	$0.12		
Class M Units	$0.12		
Basic weighted average units used in computing earnings per unit:			
Class A Units	36,742		
Class B Units	3,885		
Class M Units	1,677		
Diluted weighted average units used in computing earnings per unit:			
Class A Units	36,742		
Class B Units	3,885		
Class M Units	1,970		
Pro forma net income available to Class A Common Stock per share:			
Basic			$0.16
Diluted			$0.16
Pro forma basic and diluted weighted average units used in computing net income per share (7):			
Basic			10,869,830
Diluted			10,869,830

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(1) The Company's business has historically been operated through the LLC. As of December 31, 2013, the LLC held all of the assets and liabilities and Malibu did not have any material assets or liabilities and did not conduct operations. Accordingly, the unaudited pro forma condensed consolidated statement of income for the three months ended December 31, 2013 presents the historical results of the LLC as a starting point for the pro forma amounts.

(2) As a newly formed entity, the Company had no results of operations until the completion of the IPO.

(3) As described above, the Company terminated the LLC's existing management agreement with Malibu Boats Investor, LLC, an affiliate upon completion of the IPO. The adjustment represents the removal of the management fees incurred during the period. The adjustment does not include the non-recurring fee of $3.75 million the Company paid to Malibu Boats Investor, LLC at the completion of the IPO in connection with the termination of the management agreement.

(4) As described above, the LLC paid down all of the amounts owned on the credit facilities and term loans with the proceeds from the IPO. This adjustment represents the removal of interest expense associated with the term loans incurred during the period.

(5) As described above, the Company will be subject to U.S. federal income taxes, in addition to state taxes, with respect to the Company's allocable share of any net taxable income of the LLC that will result in higher income taxes. As a result, the pro forma statement of income reflects an adjustment to the LLC's provision for corporate income taxes to reflect an effective income tax rate of 39.1%. The effective income tax rate includes adjustments to the statutory federal income tax rate of 35% for state taxes and permanent items such as stock compensation expense attributable to profits interests, the domestic production activities deduction, and strategic and financial restructuring costs incurred in connection with the IPO. A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

Statutory federal income tax rate	35.0	%
State income taxes, net of federal taxes	3.3	
Permanent items	0.8	
	39.1	%

The provision for income taxes is computed by applying the effective income tax rate of 39.1% to pre-tax income multiplied by the percentage ownership in the LLC attributable to the Company at the completion of the IPO.

(6) The Company's only material asset after the completion of the Recapitalization and IPO is the ownership of 49.3% of the LLC Units and the Company's only business is to act as the sole managing member of the LLC. Therefore, pursuant to ASC Topic 810 the Company will consolidate the financial results of the LLC into its financial statements for periods ending on or after the IPO completed on February 5, 2014. The ownership interests of the other members of the LLC will be accounted for as a non-controlling interest in the Company's consolidated financial statements after the IPO. Immediately following the IPO, the non-controlling interest was 50.7%. These amounts have been determined based on the initial public offering price of $14.00. The amount of non-controlling interest is computed by multiplying pre-tax income by the percentage ownership in the LLC not directly attributable to the Company, or 50.7%, after the underwriters exercised their option to purchase an additional 1,071,427 shares of Class A Common Stock.

(7) Pro forma basic and diluted net income per share were computed by dividing the pro forma net income attributable to members and stockholders by 10,869,830. The number of shares is based on the 11,054,830 shares of Class A Common Stock outstanding after the IPO, 8,214,285 of which were sold in the IPO and 2,840,545 of which continue to be owned by the selling stockholders in the IPO and excluding 185,000 shares outstanding after the IPO the proceeds from which were used for general corporate purposes. Because the shares of Class B Common Stock do not share in the Company's earnings, they are not included in the weighted average number of shares outstanding or net income available per share.

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MALIBU BOATS, INC.
Pro Forma Condensed Consolidated Statement of Income (Unaudited)
Six Months Ended December 31, 2013

	Malibu Boats Holdings, LLC Historical (1)	Pro Forma Adjustments		Malibu Boats, Inc. (2) Pro Forma
	(In thousands, except per unit and per share data)			
Net sales	$87,242	$—		$87,242
Cost of sales	64,525	—		64,525
Gross profit	22,717	—		22,717
Operating expenses:				
Selling and marketing	2,942	—		2,942
General and administrative	5,023	(43)	(3)	4,980
Amortization	2,589	—		2,589
Operating income	12,163	43		12,206
Other income (expense):				
Other	9	—		9
Interest expense	(1,773)	1,771	(4)	(2)
Other expense	(1,764)	1,771		7
Net income before provision for income taxes	10,399	1,814		12,213
Provision for income taxes	—	2,244	(5)	2,244
Net income	10,399	(430)		9,969
Non-controlling interest	—	6,193	(6)	6,193
Net income attributable to members and stockholders	$10,399	$(6,623)		$3,776
Basic earnings per unit:				
Class A Units	$0.25			
Class B Units	$0.25			
Class M Units	$0.25			
Diluted earnings per unit:				
Class A Units	$0.24			
Class B Units	$0.24			
Class M Units	$0.24			
Basic weighted average units used in computing earnings per unit:				
Class A Units	36,742			
Class B Units	3,885			
Class M Units	1,677			
Diluted weighted average units used in computing earnings per unit:				
Class A Units	36,742			
Class B Units	3,885			
Class M Units	1,970			
Pro forma net income available to Class A Common Stock per share:				
Basic				$0.35
Diluted				$0.35
Pro forma basic and diluted weighted average units used in computing net income per share (7):				
Basic				10,869,830
Diluted				10,869,830

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(1) The Company's business has historically been operated through the LLC. As of December 31, 2013, the LLC held all of the assets and liabilities and the Company did not have any assets or liabilities and did not conduct operations. Accordingly, the unaudited pro forma consolidated statement of income for the six months ended December 31, 2013 presents the historical results of the LLC as a starting point for the pro forma amounts.

(2) As a newly formed entity, the Company had no results of operations until the completion of the IPO.

(3) As described above, the Company terminated the LLC's existing management agreement with Malibu Boats Investor, LLC, an affiliate, upon completion of the IPO. The adjustment represents the removal of the management fees incurred during the period. The adjustment does not include the non-recurring fee of $3.75 million paid to Malibu Boats Investor, LLC at the completion of the IPO in connection with the termination of the management agreement.

(4) As described above, the LLC paid down all of the amounts owned on the credit facilities and term loans with the proceeds from the IPO. This adjustment represents the removal of interest expense associated with the term loans incurred during the period.

(5) As described above, the Company will be subject to U.S. federal income taxes, in addition to state taxes, with respect to the Company's allocable share of any net taxable income of the LLC that will result in higher income taxes. As a result, the pro forma statement of income reflects an adjustment to the LLC's provision for corporate income taxes to reflect an effective income tax rate of 37.3%. The effective income tax rate includes adjustments to the statutory federal income tax rate of 35% for state taxes and permanent items such as stock compensation expense attributable to profits interests, the domestic production activities deduction, and strategic and financial restructuring costs incurred in connection with the IPO. A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

Statutory federal income tax rate	35.0	%
State income taxes, net of federal taxes	3.3	
Permanent items	(1.0	)
	37.3	%

The provision for income taxes is computed by applying the effective income tax rate of 37.3% to pre-tax income multiplied by the percentage ownership in the LLC attributable to the Company at the completion of the IPO.

(6) The Company's only material asset after the completion of the Recapitalization and IPO is the ownership of 49.3% of the LLC Units and the Company's only business is to act as the sole managing member of the LLC. Therefore, pursuant to ASC Topic 810 the Company will consolidate the financial results of the LLC into its financial statements for the periods ending on or after the IPO completed on February 5, 2014. The ownership interests of the other members of the LLC will be accounted for as a non-controlling interest in the Company's consolidated financial statements after the IPO. Immediately following the IPO, the non-controlling interest was 50.7%. These amounts have been determined based on the initial public offering price of $14.00. The amount of non-controlling interest is computed by multiplying pre-tax income by the percentage ownership in the LLC not directly attributable to the Company, or 50.7%, after the underwriters exercised their option to purchase an additional 1,071,427 shares of Class A Common Stock.

(7) Pro forma basic and diluted net income per share were computed by dividing the pro forma net income attributable to members and stockholders by 10,869,830. The number of shares is based on the 11,054,830 shares of Class A Common Stock outstanding after the IPO, 8,214,285 of which were sold in the IPO and 2,840,545 of which continue to be owned by the selling stockholders in the IPO and excluding 185,000 shares outstanding after the IPO the proceeds from which were used for general corporate purposes. Because the shares of Class B Common Stock do not share in the Company's earnings, they are not included in the weighted average number of shares outstanding or net income available per share.

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MALIBU BOATS, INC.
Pro Forma Condensed Consolidated Balance Sheet (Unaudited)
December 31, 2013

	Malibu Boats Holdings, LLC Historical (1)	Pro Forma Adjustments		Malibu Boats, Inc. (2) Pro Forma
	(In thousands, except share data)			
Assets:				
Current assets:				
Cash	4,531	2,590	(3) (4)	7,121
Trade receivables, net	2,683	—		2,683
Inventories, net	15,992	—		15,992
Prepaid expenses	1,250	(823)	(10)	427
Total current assets	24,456	1,767		26,223
Property and equipment, net	8,246	—		8,246
Goodwill	5,718	—		5,718
Other intangible assets, net	14,946	—		14,946
Debt issuance costs, net	915	(915)	(5)	—
Deferred tax asset	—	20,904	(6)	20,904
Other assets	39	—		39
Total assets	54,320	21,756		76,076
Liabilities:				
Current liabilities:				
Current maturities of long-term debt	4,098	(4,098)	(5)	—
Accounts payable	9,999	—		9,999
Accrued expenses	11,532	—		11,532
Total current liabilities	25,629	(4,098)		21,531
Deferred gain on sale-leaseback	140	—		140
Payable pursuant to tax receivable agreement	—	15,446	(6)	15,446
Long-term debt, less current maturities	59,312	(59,312)	(5)	—
Total liabilities	85,081	(47,964)		37,117
Equity:				
Class A Common Stock, par value $0.01 per share; 100,000,000 shares authorized; 11,054,830 shares issued and outstanding on a pro forma basis	—	110	(7)	110
Class B Common Stock, par value $0.01 per share; 25,000,000 shares authorized; 34 shares issued and outstanding on a pro forma basis	—	—	(7)	—
Preferred Stock, par value $0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding on a pro forma basis	—	—	(7)	—
Class A Units, 37,000 units authorized, 36,742 units issued and outstanding	(35,601)	35,601	(7)	—
Class B Units, 3,885 units authorized, issued and outstanding	(8,273)	8,273	(7)	—
Class M Units, 4,602 units authorized, 1,677 units issued and outstanding	(3,197)	3,197	(7)	—
Additional paid-in capital	—	16,122	(7)	16,122
Accumulated earnings	16,310	(10,570)	(8)	5,740
Total (deficit) equity	(30,761)	52,733		21,972

Non-controlling interest	—	16,987	(9)	16,987
Total members' and stockholders' (deficit) equity	(30,761)	69,720		38,959
Total liabilities and equity	54,320	21,756		76,076

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(1) The Company's business has historically been operated through the LLC. As of December 31, 2013, the LLC held all of the assets and liabilities and the Company did not have any material assets or liabilities and did not conduct operations. Accordingly, the unaudited pro forma condensed consolidated balance sheet as of December 31, 2013 presents the historical financial condition of the LLC as a starting point for the pro forma amounts.

(2) As a newly formed entity, the Company had no material assets until the completion of the IPO.

(3) Reflects the net effect on cash of the receipt of net proceeds of $99.5 million in the IPO, which amount will be used for general corporate purposes. Cash adjustments are as follows (in thousands):

Actual cash, as reported	4,531	
Pro forma adjustments:		
Net proceeds to the Company from the IPO	99,512	
Purchase of LLC units from existing owners	(29,762	)
Purchase of LLC units from the LLC	69,750	
Repayment of term loan	(63,410	)
Payment of termination fee for management agreement	(3,750	)
Remaining proceeds to the Company from the IPO	2,590	
Pro forma cash balance	7,121	

(4) As described above, the Company paid Malibu Boats Investor, LLC, an affiliate, a non-recurring fee of $3.75 million upon completion of the IPO in connection with the termination of the LLC's management agreement.

(5) As described above, the LLC paid down all of the amounts owed on its credit facilities and term loans with the proceeds from the IPO. In connection with the pay down, debt issuance costs associated with the term loans were written off to interest expense.

(6) The LLC intends to have in effect an election under Section 754 of the Internal Revenue Code of 1986, as amended, or the Code, and comparable elections under state and local tax law, such that the sale of LLC Units by existing owners will result in adjustments to the tax basis of the assets of the LLC. These increases in tax basis are expected to increase (for tax purposes) the depreciation and amortization deductions by the LLC, and therefore, to reduce the amount of income tax that the Company would otherwise be required to pay in the future. In connection with the Recapitalization and IPO, the Company has entered into a Tax Receivable Agreement with the existing owners of the LLC which became effective upon the completion of the Recapitalization and IPO, pursuant to which the Company agreed to pay to the existing owners, generally over a 15-year period (under current law), 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local and franchise income tax that the Company actually realized as a result of the increases in tax basis resulting from the sale or exchange of LLC Units by the existing owners. The unaudited pro forma condensed consolidated financial statements reflect adjustments (shown in the pro forma adjustments column above) to give effect to the Section 754 election and the Tax Receivable Agreement (as further described above) as a result of the Recapitalization and IPO based on the following assumptions:

- The unaudited pro forma consolidated financial statements include adjustments to reflect the expected increase in deferred tax assets representing the income tax effects of the increases in the tax basis as a result of the LLC’s election under Section 754 of the Code in connection with the sale of LLC Units described above. This adjustment is calculated based on an estimated effective income tax rate for the Company of 37.3%, which includes a provision for U.S. federal income taxes and assumes (i) the Company’s estimated statutory rates apportioned to each state and local tax jurisdiction, (ii) that there are no material changes in the relevant tax law, and (iii) that the Company earns sufficient taxable income in each year to realize the full tax benefit of the amortization of its assets;
- The adjustments were determined in connection with the Section 754 election by first calculating the excess of each selling LLC Unit holder and the LLC’s assumed selling price over such holder’s share of the LLC’s tax basis in its assets attributable to the LLC Units being sold to the Company. The Company then allocated the aggregate excess among the LLC’s assets following applicable tax regulations governing adjustments that result from the Section 754 election. The Company determined each selling LLC Unit holder’s share of the tax basis in the LLC’s assets attributable to the LLC Units sold to the Company by multiplying the selling LLC Unit holder’s tax capital account

balance as of the date of sale as maintained in LLC's books and records by a fraction, the numerator of which is the number of LLC Units sold to the Company, and the denominator of which is the number of LLC Units held by the selling LLC Unit holder immediately prior to the sale. For purposes of the calculation, the selling price per LLC Unit was equal to $14.00 per share, the price paid by the public for each Class A Common Stock. The adjustments are expected to increase the LLC's basis in its assets (for tax purposes), and the Company will calculate the amount of any depreciation, amortization and other deductions to which it will be entitled as a result of these adjustments. The Company will then calculate its tax liability with and without the deductions attributable to these adjustments, assuming that the Company earns sufficient taxable income in each year to realize the full benefit of the deductions. The Company will compute the estimated tax benefit attributable to the election as the excess of the Company’s tax liability as so computed without the deductions over its tax liability as so computed with the deductions. Additionally, the Tax Receivable Agreement payments may give rise to adjustments that result in the LLC becoming entitled to additional deductions, and the calculation of the Company’s liability under the Tax Receivable Agreement would take these adjustments and additional resulting deductions into account;

- The unaudited pro forma condensed consolidated financial statements include an increase in deferred tax assets of $18.1 million to reflect the Company's future tax benefit attributable to the increase in the tax basis of the assets upon purchase of LLC Units in connection with the IPO and the subsequent Section 754 election. In connection with the Recapitalization and IPO, an adjustment to recognize additional deferred tax assets of $2.8 million will be included to account for the Company’s share of the benefit from differences between historical tax basis and book basis in the assets of the LLC. The adjustments related to the LLC’s Section 754 election described above are a component of the Company’s tax basis in the LLC;
- The LLC’s election under Section 754 of the Code is at the discretion of the LLC and is not subject to review or approval by the Internal Revenue Service or other tax authorities. The computation of the adjustments resulting from the Section 754 election and the Company’s tax liability is subject to audit by the Internal Revenue Service and other tax authorities in the same manner as all other items reported on income tax returns;
- The unaudited pro forma condensed consolidated financial statements include an adjustment of $15.4 million to reflect a liability with respect to the Tax Receivable Agreement equal to 85% of the estimated realizable tax benefit resulting from the estimated increase in tax basis due to the LLC’s Section 754 election in connection with the sale of LLC Units by the existing owners; and
- The unaudited pro forma condensed consolidated financial statements include the cumulative net effect of accounting for income taxes and the Tax Receivable Agreement, which will be a net increase in stockholders’ equity of 14.8% of the estimated realizable tax benefit.

Pursuant to the terms of the Exchange Agreement, the Company's existing owners may exchange LLC Units for shares of Class A Common Stock or cash, at the Company's election, as a result of the IPO. Any subsequent exchanges of LLC Units for shares of Class A Common Stock pursuant to the Exchange Agreement may result in increases in the tax basis of the tangible and intangible assets of the LLC (85% of the realized tax benefits from which will be due to the exchanging LLC Unit holders and recorded as an additional payable pursuant to the Tax Receivable Agreement) that otherwise would not have been available. These subsequent exchanges have not been reflected in the unaudited pro forma condensed consolidated financial statements.

(7) Reflects the Recapitalization and IPO, as described above, including (i) the elimination of existing members’ equity for $47.1 million in consolidation of the LLC into the financial statements of the Company, (ii) the issuance of Class B Common Stock in connection with the Recapitalization and IPO, (iii) the issuance of Class A Common Stock in connection with the IPO for $0.1 million, (iv) The net proceeds from the purchase of LLC Units from the existing owners for $69.8 million, and (v) the net effect of accounting for income taxes and the Tax Receivable Agreement of $5.5 million, and the portion of additional paid-in capital including these items attributable to our non-controlling interest in the LLC.

(8) Reflects the net effect of adjustments for the payment of the $3.75 million management termination fee, write-off of debt issuance costs of approximately $915,000 in connection with the payoff of the LLC's credit facilities and term loans, and portion of accumulated earnings including these items attributable to the Company's non-controlling interest in the LLC multiplied by the 50.7% ownership not directly attributable to the Company.

(9) As a result of the Recapitalization and IPO, the Company's only material asset is the ownership of 49.3% of the LLC Units and its only business is to act as the sole managing member of the LLC. Therefore, pursuant to ASC Topic 810, the Company consolidated the financial results of the LLC into its financial statements for periods ending on or after the IPO completed on February 5, 2014. The ownership interests of the other members of the

LLC, or 50.7%, are accounted for as a non-controlling interest in the Company's consolidated financial statements as a result of the IPO. This amount was based on the initial public offering price of $14.00, after the underwriter's option to purchase additional shares was exercised in the IPO.

The non-controlling interest of the Company is equal to the net effect of adjustments on additional paid-in capital (noted in (7) above) and accumulated earnings (noted in (8) above) multiplied by the percentage ownership not directly attributable to the Company, or 50.7%, after the underwriters exercised their option to purchase an additional 1,071,427 shares of Class A Common Stock in the IPO.

(10) Reflects the reduction of prepaid expenses directly related to the IPO, with an offset to the proceeds of the IPO in additional paid-in capital.

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MALIBU BOATS HOLDINGS, LLC AND SUBSIDIARIES
Condensed Consolidated Statements of Income (Unaudited)
(In thousands, except per unit and share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net sales	$43,938	$37,818	$87,242	$70,977
Cost of sales	32,242	28,524	64,525	53,815
Gross profit	11,696	9,294	22,717	17,162
Operating expenses:				
Selling and marketing	1,510	1,194	2,942	2,270
General and administrative	3,068	2,640	5,023	7,152
Amortization	1,295	1,295	2,589	2,589
Operating income	5,823	4,165	12,163	5,151
Other income (expense):				
Other	6	2	9	5
Interest expense	(609)	(400)	(1,773)	(750)
Other expense	(603)	(398)	(1,764)	(745)
Income before income taxes	5,220	3,767	10,399	4,406
Provision for income taxes	—	—	—	—
Net income	$5,220	$3,767	$10,399	$4,406
Pro forma consolidated statements of operations information:				
Net income before non-controlling interest and provision for income taxes	$5,220		$10,399	
Pro forma provision for income taxes (at 37.3% assumed effective tax rate for Malibu Boats, Inc.)	959		1,911	
Pro forma net income after income taxes	4,261		8,488	
Pro forma net income attributable to non-controlling interest (50.7% assumed ownership interest not directly attributable to Malibu Boats, Inc.)	2,647		5,273	
Pro forma net income available to stockholders of Malibu Boats, Inc. Class A Common Stock	$1,614		$3,215	
Basic earnings per unit:				
Class A Units	$0.12	$0.09	$0.25	$0.11
Class B Units	$0.12	$0.09	$0.25	$0.11
Class M Units	$0.12	$0.09	$0.25	$0.11
Diluted earnings per unit:				
Class A Units	$0.12	$0.09	$0.24	$0.10
Class B Units	$0.12	$0.09	$0.24	$0.10
Class M Units	$0.12	$0.09	$0.24	$0.10
Pro forma net income available to Class A Common Stock per share:				
Basic	$0.15		$0.30	
Diluted	$0.15		$0.30	
Basic weighted average units used in computing earnings per unit:				
Class A Units	36,742	36,742	36,742	36,742
Class B Units	3,885	3,885	3,885	3,885
Class M Units	1,677	1,170	1,677	1,170
Diluted weighted average units used in computing earnings per unit:				
Class A Units	36,742	36,742	36,742	36,742

Class B Units	3,885	3,885	3,885	3,885
Class M Units	1,970	1,922	1,970	1,922
Pro forma basic and diluted weighted average shares used in computing net income per share:				
Basic	10,869,830		10,869,830	
Diluted	10,869,830		10,869,830	

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

MALIBU BOATS HOLDINGS, LLC AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2013 (Unaudited)	June 30, 2013	Pro Forma Malibu Boats, Inc. December 31, 2013 (Unaudited)
Assets			
Current assets			
Cash	$4,531	$15,957	
Trade receivables, net	2,683	7,642	
Inventories, net	15,992	11,639	
Prepaid expenses	1,250	223	
Total current assets	24,456	35,461	
Property and equipment, net	8,246	6,648	
Goodwill	5,718	5,718	
Other intangible assets	14,946	17,535	
Debt issuance costs, net	915	531	
Deferred tax asset	—	—	